

## Message Text

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43

ACTION EA-10

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 OPIC-03 AID-05

PM-03 NSC-05 SP-02 SS-15 CIAE-00 DODE-00 INR-07

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R 160825Z APR 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9469

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EO 11652: N/A

TAGS: EIND, KS

SUBJ: KOREA INSURANCE INDUSTRY

1. WAGNER D'S ALESSIO, INTERNATIONAL EXECUTIVE SERVICE CORPS  
INSURANCE INDUSTRY SPECIALIST ASSIGNED AS CONSULTANT TO  
THE MINISTRY OF FINANCE, BRIEFED EMBOFF ON THE DETAILS OF  
HIS FORTHCOMING REPORT.

2. D' ALESSIO INTENDS TO MAKE ABOUT 20 PROPOSALS FOR  
BASIC CHANGES IN THE INDUSTRY. SIX OF THE MORE IMPORTANT  
RECOMMENDATIONS ARE:

A. CORRECTIVE ACTION AS TO FINANCIL STATEMENTS (FOR  
EXAMPLE, CURRENT PRACTICE IS TO COUNT PREVIOUS YEARS'  
LOSSES AS AN ASSET, RATHER THAN TO CHARGE THEM AGAINST  
CAPITAL).

B. ADMIT TWO U.S. FIRMS AS JOINT VENTURE PARTNERS AS  
FULL-LINE NON-LIFE INSURANCE UNDERWRITERS WITH THE AIM OF  
REVITALIZING THE INSURANCE INDUSTRY. D'ALESSIO WOULD TEAM  
UP THE TWO FIRMS WITH THE EASTERN MARINE AND FIRE INSURANCE  
CO. (AIU'S PRESENT PARTNER IN PERSONAL ACCIDENT INSURANCE)  
AND THE FIRST FIRE AND MARINE INSURANCE CO., THE TWO  
WEAKEST KOREAN FIRMS.

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C. INTRODUCE A FLEXIBLE FORMULA TO DETERMINE THE AMOUNT OF COVERAGE THAT MUST BE CEDED TO THE KOREAN REINSURANCE CORPORATION (REFLECTING THE VARYING STRENGTHS OF THE DIFFERENT COMPANIES) RATHER THAN APPLYING A FIXED CUT-OFF POINT AS AT PRESENT.

D. REORGANIZE THE UNDERWRITING SYSTEM TO MAKE ACTUARIALLY SOUND "LONG-TERM" FIRE COVERAGE UNDER WHICH A POLICYHOLDER PAYS AN ANNUAL PREMIUM OF ABOUT TWO PER CENT OF COVERED VALUE AND IS GUARANTEED A RETURN OF TEN PER CENT OF SUCH VALUE AT THE END OF FIVE YEARS.

E. ESTABLISH A JOINT TIME-SHARING COMPUTER SYSTEM FOR THE ENTIRE NON-LIFE INSURANCE INDUSTRY. COMPUTERS ARE NOT NOW IN USE.

F. ESTABLISH RULES FOR THE VALUATION OF REAL ESTATE THAT WOULD DISCOURAGE SPECULATION IN VACANT LAND.

3. THE GIST OF MR. D'ALESSIO'S RECOMMENDATIONS HAS BEEN CONVEYED ORALLY TO THE INSURANCE DIVISION OF THE MINISTRY OF FINANCE. RECOMMENDATION B IS OF PARTICULAR INTEREST IN THE LIGHT OF THE VISIT TO SEOUL FRIDAY OF MAURICE GREENBERG, CHAIRMAN OF AIG. THE AMBASSADOR IS HOLDING A LUNCHEON IN HONOR OF MR. GREENBERG, AND MINISTER OF FINANCE KIM YONG HWAN AND ECONOMIC PLANNING BOARD MINISTER NAM DUCK WOO HAVE AGREED TO ATTEND.

4. ACTION REQUESTED: THE EMBASSY IS AWARE THAT A JOINT VENTURE PROPOSAL WOULD BE ACCEPTABLE TO AIU. THE DEPARTMENT IS REQUESTED TO ELICIT AFIA'S VIEWS ON THIS PROPOSAL. DECONTROL UPON RECEIPT.  
SNEIDER

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## Message Attributes

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